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PIC(k): a new growth channel

As retail capital expenditure budgets have moderated in recent years, the professional installation companies that aid in the store construction and remodeling process are leveraging their expertise to pursue growth opportunities in some nontraditional retail channels.

Professional installation companies, also referred to as PICs, are the service providers retailers turn to at various stages in the new store construction or remodeling process for help with build-out, rollout, retrofit or maintenance activities. Such work often is outsourced, enabling retailers to tap into the expertise of PICs and save money.

"Retailers are under extreme pressure to reduce costs. By outsourcing the store set-up function, retailers do not have to carry the costs associated with a fixed workforce and can convert fixed costs to

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Making a difference in store

For three days earlier this year, the state of in-store execution and how to achieve future success were dissected by senior executives from retail, consumer packaged goods and merchandising and marketing services companies who gathered in Tampa, Fla., for the annual meeting of the National Association for Retail Marketing Services.

These are challenging times for many in the retail industry, so the discussions around execution were particularly interesting as they explored such themes as how to work effectively with large companies, become more relevant and add value in a marketplace where the relentless drive among retailers to improve financial performance ensures constant downward pressure on labor and resulting execution challenges. To survive and thrive in such an environment, those who participated in the event heard from a wide range of retail thought leaders, companies who operate merchandising and marketing services firms and those who retain their services.

For newmarketbuilders president Carol Spieckerman, a key way for service companies to become more relevant is to "be more involved on the front end when programs are being conceived, as opposed to simply executing on the back end. You will move from being a tactical executor to

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Failure is not an option

The notion that the more things change, the more they stay the same has never been truer than when it comes to the retail industry, where the path to prosperity long has hinged on a well-executed, clearly defined strategy. While that basic formula is as relevant today as it has been at any time in the past, what's changed are the competitive circumstances, new operational imperatives and dynamics of the marketplace in which execution is expected to occur.

For retailers and brand marketers alike, a new reality now exists in which it has never been more important to achieve an absolutely stellar degree of store level execution. This despite the fact that the need to deliver financial results has caused retailers to pursue all manner of initiatives that create new execution

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variable costs. The PIC allows this conversion to happen without any decrease in efficiency, effectiveness or expertise, and increases the quality of the process," according to a new study called "Continuing to Build the Future of Retail 2010." The study involved 29 PIC members who belong to the National Association for Retail Marketing Services. It is a follow-up to a similar study conducted in 2006 called "PIC – Building Out the Future of Retail."

While the value proposition of PICs hasn't changed, the firms engaged in the study noted shifting market dynamics have led to changes in the type of work being performed in addition to new areas where growth opportunities are expanding.

"A market that was defined by rapid retail expansion has receded. The surviving retailers have had to change and adjust their approach as acquisitions, bankruptcies and a shifting of customer traffic has created a new reality in a relatively short period of time," according to the report.

One of the biggest changes relates to the recession and how retailers reacted to it. The report examined actual 2009 capital expenditures at 75 publicly traded retailers and determined that 77% of total capital expenditures, or $80.5 billion, was spent on new store and remodeling activities, compared with the 81% in 2006. Historically, there has been a close correlation between capital expenditures and demand for PIC services.

In addition to a reduced percentage of dollars directed to new store construction and remodeling activities in 2009, there was a material shift in how dollars were spent when compared with 2006. For example, in 2009, 39% of capital expenditures went toward new construction, compared with 60% just three years earlier. Conversely, remodel-related capital expenditures, which represented about 21% of the total in 2006, increased to 38% last year.

Retailer capital budgets likely are to remain constrained in coming years, especially as they relate to new stores, but that doesn't mean PICs won't have plenty of new opportunities to pursue elsewhere. Increasingly, PICs have discovered that the skill sets and capabilities that

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challenges. Perhaps the most significant of these is the widespread industry imperative to leverage information technology to optimize inventory levels.

Social media can be a retailer's best friend or worst enemy, and which way the pendulum swings is heavily influenced by the caliber of in-store execution and customer experience.

Retailers can't afford to have, and don't want, working capital tied up needlessly in inventory levels determined to be excessive based on rate of sale or anticipated demand. However, at the same time, even casual observation of out-of-stock levels in the marketplace suggests operators are over-estimating their demand forecasting and replenishment capabilities. As a result, inventory optimization efforts may help retailers impress investors in the short term, while creating the potential for shopper disappointment and new execution challenges related to inadequate inventory.

The other major impediment to achieving high execution levels is the lack of store labor. While this is a familiar challenge, it has been exacerbated by a weak economy that has put pressure on sales growth and caused retailers to compensate by either eliminated labor hours or attempting to align labor with functions that directly impact customer service. The bottom line from an execution standpoint is that CPG companies who want something done at retail increasingly are going to have to do it themselves, or, more likely, retain the services of a merchandising service organization to perform the work for them.

While efforts to minimize inventory and labor costs intensified during the reces-

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sion, with the result being the creation of a more challenging environment in which to execute retail programs, improved economic conditions aren't likely to reverse the trend or happen anytime soon. Putting aside the day-to-day gyrations of the stock market, the longer-term reality is that the outlook for a U.S. economy is rather bleak due to its dependency on consumer spending to drive growth. Stubbornly high unemployment rates, an aging population past its prime consumption years and increased tax rates are all expected to serve as headwinds to constrain consumer spending.

It is against this backdrop that retailers and CPG companies will be looking to execute increasingly elaborate multichannel merchandising and marketing initiatives that appeal to a new breed of shoppers that have insanely high expectations of retailers and zero tolerance for shortcomings. Operating in an environment of escalating consumer expectations is not a new phenomenon for retailers. However, the concept of multichannel operations introduced new complexities to retailers just as the manner in which humans communicate with one another experiences a dramatic shift thanks to social media. Social media can be a retailer's best friend or worst enemy, and which way the pendulum swings is heavily influenced by the caliber of in-store execution and customer experience.

Shoppers who are dissatisfied or even outraged now possess state-of-the-art technology that enables them to inform the world of retailers' or brands' failings in high-definition glory, courtesy of the latest generation of smart phones. In such an environment, those who outperform competitors from an execution standpoint can expect to see the beneficial effects of their efforts magnified while the same is true of the shortcomings of inept operators.

Every generation of retail and CPG executives undoubtedly has felt as though they were operating in the most challenging of times. What's different about the near-term environment is today's retailers and CPG companies face all of the familiar challenges associated with keeping pace with consumers' evolving demands while simultaneously dealing with a wide range of new pressures and external factors that few imagined even a decade ago. ■

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make them an indispensible, if oftentimes invisible, component of the retail industry can be applied in other nontraditional retail settings that also place a high value of speed, execution and expense control.

For example, PICs that participated in the study noted that they are providing services to hotels and motels, banks, restaurants, branded store-within-a-store concepts and even doctors' offices. Other areas involve kiosk maintenance, electronic shelf tag installations, automotive showrooms and waiting areas, sports venues, airports and pop-up stores.

"The ability of get multiple locations open quickly in a huge variety of retail spaces takes perfect advantage of the PIC value proposition," according to the study. ■

Professional Installation Companies

(Type of work performed)

Install graphics/signs	100%
Reset/remodel & new store set up	84%
In-store assembly/installation	80%
Site surveys	80%
Install prefab units	76%
Project merchandising	68%
General contracting	56%
Low voltage	52%
Warehousing/distribution	44%

And where they are active…

(Trade class where Professional Installation Companies operate)

Mass	76%
Drug	64%
Grocery	60%
Home center	60%
Office supply	60%
Department store	52%
Pet supply	52%
Convenience	44%
Electronic	36%
Hardware	13%

Source: National Association for Retail Marketing Services 2010 report: PIC – Continuing to Build the Future of Retail.

Making a difference in store

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a strategic resource," she said.

The potential for service companies to play such an expanded role has never been greater, according to Spieckerman, because "after years of doing everything for themselves, retailers have never been more open to using outside providers. However, their standards have never been higher," she added.

In such an intensely competitive market and a challenging economy that leaves zero margin for error, the stakes simply are too high for retailers and their trading partners to tolerate anything less than 100% execution. Not surprisingly then, one recurring view expressed was for companies to be candid about their capabilities.

"Commit to only what your organization is truly capable of handling and be upfront about outsourcing," said Mary Jo Bastuba, senior national field manager with Nintendo of America. "If I am contracting with your team, I need to know that it is your team that is going to execute the project." Nintendo outsources to third-party firms on those occasions when broad retail coverage is required, such as new product launches, but the company also maintains its own field organization of 150 people overseen by Bastuba. The organization is comprised of three regions, each of which has five districts with 10 employees per district. Employees perform display maintenance, regular software updates, stock shelves, cut in new items, ensure planogram and pricing integrity. "In addition, each of our representatives is provided with the latest products that they are asked to familiarize themselves with. Product education for us is huge," Bastuba said.

Despite what sounds like a dream job for a gaming aficionado, and even with high unemployment rates, Bastuba said one of the hardest things is finding the right people. Nintendo conducts face-to-face interviews, background checks and drug screening, followed by a week of training at Seattle headquarters and a week spent with a district supervisor. Then there are unannounced visits, monthly conference calls, and an annual meeting to prepare for the holidays. The approach has paid off, and one-third of the team has been with the company for more than 10 years.

"We want the companies we work with to have their own relationships with retailers so they can solve problems without our involvement,"

Loren Woodbury, HP

As expectations around in-store execution continue to rise, reducing turnover becomes an even greater imperative. Not only because it improves execution, but because it reduces training costs. According to Kelly Hampton, executive director of merchandising for 20th Century Fox Home Entertainment, the entire process begins with clear communication with job applicants. She suggested companies could do a better job of managing applicants' expectations so that those who are hired know upfront what the job entails.

In the case of 20th Century Fox, that means being nimble. "The companies we work with have to be flexible and fast. If I am lucky, I may get six weeks lead time, but it may be only two weeks," Hampton said. Her situation is unique given the nature of the entertainment business and the steady flow of new releases. As a result, 20th Century Fox and six other major studios devised a shared services model that enables the studios to service stores

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collectively more effectively than if each studio were to hire an individual firm. The arrangement elminates store level confusion and is preferred by buyers because it improve execution, she said.

The topic of execution dominated much of the conversation at the NARMS annual meeting, and in conjunction with that, several people highlighted the fact that companies need to be realistic about their capabilities to avoid getting in over their heads on a project they will have difficulty executing. "I have been at this a long time and can tell who can do it now and who will be able to do it eventually. There is a very big difference," Hampton said.

Likewise, Loren Woodbury with Hewlett-Packard's consumer market sales leadership team noted that the global technology firm places high expectations on the companies it retains to execute in-store programs. It begins with a view that merchandising and marketing services firms should have relationships with the retailers whose store they will be working in.

"We want the companies we work with to have their own relationships with retailers so they can solve problems without our involvement," Woodbury said. It also is important, especially for a large company such as HP, that there is a cultural alignment with respect to expense control and quarterly business reviews being indispensible. So too is a willingness to say, "no."

"We will ask you to do some crazy stuff and if we ask you to do something that doesn't make any sense, you need to let us know," Woodbury said.

Other tips for success he offered included making sure your company has a legitimate value proposition, is adept at reporting and analytics and is profitable. "We don't want to work with anyone who is not the best at what they do, and we want you to make money. We don't want you to be profitable at our expense, but we do want you to be profitable by being efficient," Woodbury said.

Demonstrating efficiency generally is easier for a third party, according to Kelly Baker, EVP sales with Teters Floral Products. After a review of his company's internal team, it was determined that one-third of the budget being spent on in-store service was being expended in nonproductive ways and eroding profits. Labor costs tend to outpace margin expansion, because, as Baker explained, "everyone expects to get paid more even if their job doesn't change. We have found that outsourcing is addictively cheaper." ■

MSO thought leaders share views

Q&A

Dan Borschke,
President/CEO of NARMS

Turning the corner

The National Association for Retail Marketing Services recently held its annual meeting in Tampa, Fla. Association president and CEO Dan Borschke spoke with RetailingToday.com editor Mike Troy about the outlook for the industry, emerging challenges and key trends.

MT: Attendance was solid at your annual meeting this year. How would you characterize the mood of those who participated?

DB: The economy was very challenging in 2009, so people are feeling much more optimistic about where we are at today compared with a year ago, even though we are not back to the level we were at five years ago. Business conditions have definitely improved and our members are confident in their abilities and feel the services they provide add value to the retail industry.

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Turning the corner

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MT: What other trends are you seeing beyond the sense of optimism?

DB: We are seeing a lot of change in the industry as it relates to ongoing consolidation among companies of all sizes. Offsetting the consolidation is an increase in entrepreneurialism, with a lot of smaller companies starting up. The barriers to entry in the merchandising and marketing services industry are relatively low, which makes it easy for people to identify an unmet need and develop an appropriate offering. As a result, we have seen new companies emerge that initially are niche oriented or that approach the business regionally or by focusing on a specific discipline or scope of work.

MT: Any other trends?

DB: We believe retailers, as well as manufacturers, increasingly are going to demand that the people coming into their stores and performing work on their behalf are certified in some way, shape or form. That's why NARMS, along with our partner BDS Marketing, developed CertifyU.

MT: What is CertifyU?

DB: It is a certification program that provides merchandisers, event marketers and others involved in our industry with a way to demonstrate proficiency and demonstrate to employers they have put in the extra effort to study for and pass a test. BDS Marketing developed curriculum for eight different areas where people can achieve certification. We have seen a lot of interest since the program was launched in February, but it is not where we would like it to be yet in terms of participation and endorsement by leading retailers. Eventually, we would like to get to a point where a Walmart, Target, Macy's or Best Buy will want all of the people performing work in their stores to be certified.

MT: Where do things stand with the program NARMS was developing to certify companies?

DB: The downturn in the economy temporarily threw a wrench in our plans to develop that program, but we continue to move forward with the process and believe the marketplace will recognize the value associated with an accreditation process designed specifically for merchandising and marketing services companies. We are hopeful that during the remainder of this year and next year we will be able to finalize the program so that retailers and suppliers can be assured that not only individuals are certified, but the companies they work for also have certain standards that they meet.

MT: It's great the market has improved from last year as you mentioned earlier, but what's the longer-term outlook?

DB: I took this job six years ago with a sense of optimism about the future possibilities for this industry. No one foresaw the economic challenges that disrupted the marketplace the past few years, which impacted the retail industry, our members and NARMS. Fortunately, economic downturns are a temporary phenomenon and eventually our industry will resume its very favorable growth trajectory driven by the value of the service provided. With retailers cutting back staff, the only way for them and their trading partners to continue to do what they need to do in stores is hire external staff, and that is why NARMS member companies exist. ■